

Federal Communications Commission

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Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

DISPATCHED BY

In the Matter of )  
 )  
Amendments to Uniform System of ) CC Docket No. 97-212  
Accounts for Interconnection )  
 )

### NOTICE OF PROPOSED RULEMAKING

Adopted: October 2, 1997

Released: October 7, 1997

Comment Date: December 10, 1997

Reply Date: January 26, 1998

By the Commission:

### I. INTRODUCTION

1. One of the primary goals of the Telecommunications Act of 1996<sup>1</sup> is to open all telecommunications markets to competition. Section 251 of the Communications Act of 1934, as amended by the 1996 Act, establishes the general duty for all telecommunications carriers "to interconnect directly or indirectly with the facilities and equipment of other telecommunications carriers."<sup>2</sup> At the same time, Congress acted to ensure that access to advanced telecommunications infrastructure would be made available in all regions of the nation at just, reasonable, and affordable rates.<sup>3</sup> Section 259 of the Act requires ILECs to make available, under certain conditions, public switched network infrastructure and other capabilities to qualifying

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<sup>1</sup> Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56 (1996 Act), amending the Communications Act of 1934, 47 U.S.C. § 151 *et seq.* (the Act).

<sup>2</sup> 47 U.S.C. § 251(a)(1). *See* Implementation of the Local Competition Provisions of the Telecommunications Act of 1996, *First Report and Order*, CC Docket No. 96-98, 11 FCC Rcd 15499 (1996) (*Local Competition Order*), *aff'd in part, vacated and remanded*, Iowa Util. Bd. v. FCC, No. 96-3321 *et al.*, 1997 WL 403401 (Eighth Cir. July 18, 1997).

<sup>3</sup> 47 U.S.C. § 254(b). *See* Federal-State Joint Board on Universal Service, *Report and Order*, CC Docket No. 96-45, FCC 97-157 (rel. May 8, 1997) (*Universal Service Order*).

carriers that are providing universal service outside the providing ILEC's telephone exchange area.<sup>4</sup>

2. In this NPRM, we propose rules for the accounting treatment of transactions related to interconnection and shared infrastructure. Specifically, we propose new Part 32 accounts and subsidiary recordkeeping requirements to record the revenues and expenses related to providing and obtaining interconnection. We tentatively conclude that new accounts are not necessary to record the revenues and expenses associated with sharing infrastructure.

## II. BACKGROUND

3. To promote just and reasonable rates for services in the interstate jurisdiction, as required by the Act, the Commission established a comprehensive system of accounting and non-accounting safeguards designed to discourage carriers from misallocating the costs of nonregulated activities and to ensure that ratepayers share in any efficiencies generated from joint use of the network by nonregulated activities. For carriers with market power,<sup>5</sup> the Commission has in place a uniform system of accounts, cost allocation standards, affiliate transactions rules, audit requirements, and other implementation and enforcement mechanisms.<sup>6</sup>

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<sup>4</sup> 47 U.S.C. § 259(a), (b)(6). See Implementation of Infrastructure Sharing Provisions in the Telecommunications Act of 1996, *Report and Order*, CC Docket No. 96-237, FCC 97-36 (rel. Feb. 7, 1997) (*Infrastructure Sharing Order*).

<sup>5</sup> In a series of orders, the Commission established a distinction between carriers with market power and those without. The Commission concluded that carriers without market power could not charge rates or engage in practices that contravene the requirements of the Act because their customers could always switch to another provider. The Commission, therefore, gradually relaxed its regulation of carriers without market power. Policy and Rules Concerning Rates for Competitive Common Carrier Services and Facilities Authorizations Therefor, CC Docket No. 79-252, *Notice of Inquiry and Proposed Rulemaking*, 77 FCC 2d 308 (1979); *First Report and Order*, 85 FCC 2d 1 (1980); *Further Notice of Proposed Rulemaking*, 84 FCC 2d 445 (1981); *Second Further Notice of Proposed Rulemaking*, 47 Fed. Reg. 17,308 (1982); *Second Report and Order*, 91 FCC 2d 59 (1982); *Order on Reconsideration*, 93 FCC 2d 54 (1983); *Third Further Notice of Proposed Rulemaking*, 48 Fed. Reg. 292 (1983); *Third Report and Order*, 48 Fed. Reg. 46,791 (1983); *Fourth Report and Order*, 95 FCC 2d 554 (1983); *vacated AT&T v. FCC*, 978 F.2d 727 (D.C. Cir. 1992), *cert. denied MCI Telecommunications Corp. v. FCC*, 113 S.Ct. 3020 (1993); *Fourth Further Notice of Proposed Rulemaking*, 98 FCC 2d 1191 (1984), *Fifth Report and Order*, 98 FCC 2d 1191 (1985); *Sixth Report and Order*, 99 FCC 2d 1020 (1985), *vacated MCI Telecommunications Corp. v. FCC*, 765 F.2d 1186 (1985). For an overview of the Commission's definition of market power, see Motion of AT&T Corp. to be Reclassified as a Non-Dominant Carrier, *Order*, 11 FCC Rcd 3271 (1995); Regulatory Treatment of LEC Provision of Interexchange Services Originating in the LEC's Local Service Area, Policy and Rules Concerning Interstate, Interexchange Marketplace, *Second Report and Order and Third Report and Order*, CC Docket Nos. 96-149, 96-61, FCC 97-142 (rel. Apr. 18, 1997).

<sup>6</sup> The Commission's approach has evolved from structural separations requirements to a combination of accounting and non-accounting safeguards. See, e.g., Regulatory and Policy Problems Presented by the Interdependence of Computer and Communications Services and Facilities, *Tentative Decision*, 28 FCC 2d 291 (1970); *Final Decision and Order*, 28 FCC 2d 267 (1971) (*Computer I*), *aff'd sub. nom GTE Services Corp. v. FCC*,

4. The Commission's safeguards require ILECs to record their costs and revenues in the Uniform System of Accounts (USOA).<sup>7</sup> Part 32 expense and plant accounts are used to record costs associated with ILECs' provision of products and services to customers. Part 32 revenue accounts are used to record ILEC revenue associated with products and services customers purchase. Part 32 accounts do not reflect an *a priori* allocation of revenues,

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474 F.2d 724 (2d Cir. 1973); *decision on remand*, 40 FCC 2d 293 (1973); Amendment of Section 64.702 of the Commission's Rules and Regulations, 77 FCC 2d 384 (1980) (*Computer II*), *recon.* 84 FCC 2d 50 (1980), *further recon.* 88 FCC 2d 512 (1981), *aff'd sub nom.* Computer and Communications Industry Ass'n v. FCC, 693 F.2d 198 (D.C. Cir. 1982), *cert. denied*, 461 U.S. 938 (1983); Policy and Rules Concerning Rates for Competitive Carrier Services and Facilities Authorizations Thereof, *Fifth Report and Order*, CC Docket No. 79-252, 98 FCC 2d 1191 (1984); Separation of Costs of Regulated Telephone Service from Costs of Nonregulated Activities, Amendment of Part 31, the Uniform System of Accounts for Class A and Class B Telephone Companies, *Report and Order*, CC Docket No. 86-111, 2 FCC Rcd 1298 (rel. Feb. 6, 1987) (*Joint Cost Order*), *recon.* 2 FCC Rcd 6283 (1987), *further recon.* 3 FCC Rcd 6701 (1988), *aff'd sub nom.* Southwestern Bell Corp. v. FCC, 896 F.2d 1378 (D.C. Cir. 1990) (collectively referred to as the *Joint Cost Orders*); Amendment of Section 64.702 of the Commission's Rules and Regulations, *Report and Order*, CC Docket No. 85-229, Phase I, 104 FCC 2d 958 (1986) (*Phase I Order*), *recon.* 2 FCC Rcd 3035 (1987) (*Phase I Recon.*), *further recon.* 3 FCC Rcd 1135 (1988), *second further recon.* 4 FCC Rcd 5927 (1989), *Phase I Order and Phase I Recon. vacated* California v. FCC, 905 F.2d 1217 (9th Cir. 1990) (*California I*); Amendment of Section 64.702 of the Commission's Rules and Regulations, *Report and Order*, CC Docket No. 85-229, Phase II, 2 FCC Rcd 3072 (1987) (*Phase II Order*), *recon.* 3 FCC Rcd. 1150 (1988), *further recon.* 4 FCC Rcd 5927 (1989), *Phase II Order vacated* California I, 905 F.2d 1217; Computer III Remand Proceeding, CC Docket No. 90-368, 5 FCC Rcd 7719 (1990), *recon.*, 7 FCC Rcd 909 (1992), *pets. for review denied*, California v. FCC, 4 F.3d 1505 (9th Cir. 1993); Computer III Remand Proceedings: Bell Operating Company Safeguards and Tier 1 Local Exchange Company Safeguards, CC Docket No. 90-623, 6 FCC Rcd 7571 (1991), *vacated in part and remanded*, California v. FCC, 39 F.3d 919 (9th Cir. 1994), *cert. denied*, 115 S.Ct. 1427 (1995). The 1996 Act imposes structural safeguards requirements for certain competitive activities of the Bell Operating Companies. See 47 U.S.C. §§ 272 and 274. See also Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as Amended, *First Report and Order and Further Notice of Proposed Rulemaking*, CC Docket No. 96-149, FCC 96-489 (rel. Dec. 24, 1996) (*Non-Accounting Safeguards Order*); Implementation of the Telecommunications Act of 1996: Accounting Safeguards Under the Telecommunications Act of 1996, *Report and Order*, CC Docket No. 96-150, 11 FCC Rcd 17539 (1996) (*Accounting Safeguards Order*).

<sup>7</sup> 47 C.F.R. Part 32. ILECs having annual revenues from regulated telecommunications operations that are less than an indexed revenue threshold may keep a less detailed scheme of accounts than those that exceed the indexed revenue threshold. The indexed revenue thresholds applicable to annual operating revenues from 1993, 1994 and 1995 are \$102 million, \$104 million, and \$107 million, respectively. Implementation of the Telecommunications Act of 1996: Reform of Filing Requirements and Carrier Classifications, *Order and Notice of Proposed Rulemaking*, CC Docket No. 96-193, 11 FCC Rcd 11716 (1996) (*Filing Requirements Order*). The indexed revenue threshold applicable to operating revenue from 1996 is \$109 million. Commission Adjusts Its Annual Revenue Threshold to Account for Inflation for 1996 in Accordance with Section 402 of the 1996 Telecommunications Act, *Public Notice*, Report No. CC-97-21, DA 97-932 (Com. Car. Bur. rel. May 2, 1997). See also Implementation of the Telecommunications Act of 1996: Reform of Filing Requirements and Carrier Classifications, *Report and Order*, CC Docket No. 96-193, FCC 97-145 (rel. May 20, 1997).

investments, or expenses to products, services, or jurisdictional structures.<sup>8</sup> Rather, the accounts are intended to reflect a functional and technological view of the telecommunications industry.<sup>9</sup> For example, expenditures for cable are organized by technological distinctions, such as whether they are aerial,<sup>10</sup> underground,<sup>11</sup> or buried,<sup>12</sup> but not whether they are used to provide local exchange or exchange access services.

### III. DISCUSSION

5. Section 251 of the Act contemplates three paths of entry into the local exchange and exchange access market: the construction of new networks; the use of unbundled elements of the incumbent's network; and resale of local exchange service.<sup>13</sup> To that end, section 251 directs incumbent local exchange carriers (ILECs) to take several steps to open their networks to competition, including: providing interconnection; offering access to unbundled elements of their networks; furnishing transport and termination of competitors' traffic (transport and termination); and making their retail services available to resellers at wholesale rates (resale).<sup>14</sup> Section 259 of the Act requires ILECs to share their infrastructure so that other qualifying carriers may offer advanced telecommunications services outside of the ILEC's telephone exchange area.<sup>15</sup> Currently, no specific accounts have been designated to record the amounts associated with interconnection arrangements. Without guidance from the Commission, carriers could differ regarding into which existing account the revenues and expenses should be recorded.<sup>16</sup> We seek uniformity in reporting to facilitate comparisons among ILECs and to

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<sup>8</sup> 47 C.F.R. § 32.2(c).

<sup>9</sup> *Id.* § 32.2(e).

<sup>10</sup> *Id.* § 32.2421.

<sup>11</sup> *Id.* § 32.2422.

<sup>12</sup> *Id.* § 32.2423.

<sup>13</sup> See 47 U.S.C. § 251; *Local Competition Order*, *supra* note 2; see also *Iowa Util. Bd. v. FCC*, *supra* note 2.

<sup>14</sup> 47 U.S.C. § 251(c). Unless specific reference is made to a particular interconnection method, the term "interconnection" as used in the remainder of this document encompasses interconnection, unbundled access, transport and termination, and resale.

<sup>15</sup> See *id.* § 259; *Infrastructure Sharing Order*, *supra* note 4.

<sup>16</sup> For example, revenues received for providing interconnection could be recorded in Account 5230 -- Miscellaneous revenue, Account 5250 -- Rent revenue, or Account 5264 -- Other incidental regulated revenue.

calculate and track investments and performance related to these services. In this section of the NPRM, we propose new Part 32 accounts and additional subsidiary recordkeeping requirements for reporting revenues and costs associated with interconnection arrangements.<sup>17</sup> We also tentatively conclude that new accounts are not necessary for recording the revenues and costs associated with sharing infrastructure.

6. These proposed accounts and subsidiary recordkeeping requirements are intended to achieve the following goals: (1) to facilitate uniform reporting among ILECs with respect to interconnection and infrastructure sharing arrangements; (2) to enable the Commission to monitor and assess the economic impact of the development of local exchange and exchange access competition and the deployment of advanced telecommunications capabilities; (3) to ensure that regulated ratepayers do not bear the costs of ILECs' competitive activities;<sup>18</sup> and (4) to assist Commission decisionmaking concerning ILEC petitions for forbearance from regulation pursuant to section 10 of the Act by making information concerning ILEC performance related to these services accessible and verifiable. We tentatively conclude that the proposed accounts will provide the Commission with useful information without imposing undue burdens on carriers. We seek comment on this tentative conclusion. We also seek comment on whether the accounts described below are adequate to meet the Commission's objectives and we invite alternative proposals.

#### A. Revenues and Expenses

7. ***Interconnection and Access to Unbundled Network Elements.*** Section 251(c)(2) of the Act requires ILECs to provide interconnection<sup>19</sup> to any requesting telecommunications carrier at any technically feasible point on rates, terms, and conditions that are just, reasonable, and nondiscriminatory.<sup>20</sup> In addition to these requirements, section 251(c)(3) of the Act requires ILECs to provide requesting telecommunications carriers with nondiscriminatory access to network elements on an unbundled basis "in a manner that allows requesting telecommunications

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<sup>17</sup> We note that the pricing provisions of the *Local Competition Order* have been vacated. See Iowa Util. Bd. v. FCC, *supra* note 2. Regardless of how prices for interconnection are determined, new Part 32 accounts and subsidiary recordkeeping requirements are necessary to meet the goals set forth in paragraph 6.

<sup>18</sup> 47 U.S.C. § 254(k).

<sup>19</sup> "Interconnection" refers to the physical linking of two networks for the mutual exchange of traffic. *Local Competition Order*, 11 FCC Rcd at 15590.

<sup>20</sup> 47 U.S.C. § 251(c)(2).

carriers to combine such [unbundled] elements in order to provide . . . telecommunications service."<sup>21</sup>

8. We propose a new Part 32 revenue account -- Account 5071, Interconnection and access to unbundled network elements -- to record all revenues received by an ILEC from competing local exchange carriers (CLECs), interexchange carriers (IXCs), and any other carriers for providing interconnection and access to unbundled network elements pursuant to sections 251(c)(2) and 251(c)(3). This NPRM also proposes a new Part 32 expense account -- Account 6551, Interconnection and access to unbundled network elements -- to record the costs of purchasing interconnection and access to unbundled network elements from other telecommunications carriers pursuant to section 251. We seek comment on the proposed accounts and account descriptions. In particular, we seek comment on our proposal to include the amounts received for providing both interconnection and access to unbundled network elements in a single revenue account and ask whether distinct accounts are necessary to achieve the goals set forth above. Similarly, we ask whether distinct expense accounts are necessary to segregate the amounts paid to obtain interconnection from the amounts paid to obtain access to unbundled network elements.

9. The Local Competition Order established that the minimum set of elements that must be unbundled by ILECs includes unbundled access to their local loops, network interface devices, local and tandem switching capability, interoffice transmission facilities, signaling and call-related databases, operations support systems functions, and operator services and directory assistance facilities.<sup>22</sup> Consistent with this approach, we propose subsidiary recordkeeping categories that will enable carriers to identify the revenue from and amounts paid for interconnection and each unbundled network element. We seek comment on this proposed recordkeeping requirement.

10. **Transport and Termination.** Section 251(b)(5) of the Act provides that all LECs, including ILECs, have the duty to "establish reciprocal compensation arrangements for the transport and termination of telecommunications."<sup>23</sup> The *Local Competition Order* treats transport and termination as two distinct functions.<sup>24</sup> "Transport" is defined as "the transmission of termination traffic that is subject to section 251(b)(5) from the interconnection point between the

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<sup>21</sup> *Id.* § 251(c)(3).

<sup>22</sup> *Local Competition Order*, 11 FCC Rcd at 15683, para. 366, *supra* note 2, *aff'd* Iowa Util. Bd. v. FCC, *supra* note 2 at p. 18 (finding that our decision to require ILECs to unbundle certain elements was reasonable and consistent with the Act). See also 47 C.F.R. § 51.319.

<sup>23</sup> 47 U.S.C. § 251(b)(5).

<sup>24</sup> *Local Competition Order*, 11 FCC Rcd at 16015.

two carriers to the terminating carrier's end office switch that directly serves the called party (or equivalent facility provided by a non-incumbent carrier.)"<sup>25</sup> "Termination" is defined as "the switching of traffic that is subject to section 251(b)(5) at the terminating carrier's end office switch (or equivalent facility) and delivery of traffic from that switch to the called party's premises."<sup>26</sup>

11. We propose a new Part 32 revenue account -- Account 5072, Transport and termination revenue -- to record all revenues received by ILECs for providing transport and termination of traffic subject to section 251(b)(5). We also propose a new Part 32 expense account -- Account 6552, Transport and termination expense -- to record amounts paid for transport and termination of traffic subject to section 251(b)(5). We seek comment on these proposed accounts and account descriptions. In addition, we propose subsidiary record categories so that the amounts attributable to transport and termination may be separately recorded. We seek comment on this proposed requirement.

12. The *Local Competition Order* observes that the legislative history of the transport and termination requirement indicates that "mutual and reciprocal recovery of costs. . . may include a range of compensation schemes, such as in-kind exchange of traffic without cash payment (known as bill-and-keep arrangements)."<sup>27</sup> We seek comment on whether the proposed accounts will be adequate to accommodate the different types of compensation arrangements that may be used.

13. **Resale.** Section 251(c)(4) of the Act imposes a duty on ILECs to offer for resale "any telecommunications service that the carrier provides at retail to subscribers who are not telecommunications carriers."<sup>28</sup> Because the Act does not require an ILEC to make a wholesale offering of any service the ILEC does not offer to retail customers, the *Local Competition Order* does not specify a minimum list of services that are subject to the resale requirement.<sup>29</sup> To enable the Commission to track the revenue associated with resale, we propose establishing subsidiary record categories for carriers to report the amounts contained in existing Part 32 revenue accounts that result from the wholesale of telecommunications service pursuant to section 251(c)(4). In addition, it is possible that ILECs may purchase telecommunications services for

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<sup>25</sup> *Id.*

<sup>26</sup> *Id.*

<sup>27</sup> *Id.* at 16008 (citing Joint Managers' Statement, S. Conf. Rep. No. 104-230, 104th Cong., 2d Sess. 113 (1996)).

<sup>28</sup> 47 U.S.C. § 251(c)(4)(A).

<sup>29</sup> *Local Competition Order*, 11 FCC Rcd at 15934.

resale from another telecommunications carrier. Because purchasing telecommunications services is a new category of expense for carriers subject to our accounting rules, the NPRM also proposes a new expense account -- Account 6553, Purchased telecommunications service expense -- to record all amounts paid by those carriers to purchase telecommunications service for resale. We seek comment on the proposed expense account and revenue recordkeeping requirement.

## **B. Costs of Providing Interconnection**

14. We anticipate that ILECs providing interconnection and access to unbundled network elements will not generate new types of costs beyond those already being incurred in normal operations. The costs associated with each unbundled network element are recorded in numerous Part 32 accounts. The particular combination of accounts varies for each element.<sup>30</sup> Although additional amounts may be incurred, we tentatively conclude that these amounts may be recorded within existing accounts. For recordkeeping purposes, we propose establishing subsidiary accounting records to record the costs associated with providing interconnection. We propose that the total amount of costs to be recorded in the subsidiary records be based on the revenues received for providing interconnection and that the apportionment of the costs should be consistent with cost studies underlying the charges for these services and elements.<sup>31</sup> If agreements are reached to provide interconnection or access to unbundled network elements that are not based on ILEC cost studies, we propose to require the ILEC to construct a cost study reflecting the agreement upon which to base its assignment of costs to the subsidiary records. Moreover, if a state has arbitrated an agreement, we propose that any action of the state that alters the underlying cost study (such as a cost disallowance) should be reflected in the underlying cost study upon which the ILEC bases the reclassification of costs to the subsidiary records. Finally, we propose to require that ILECs maintain a sufficiently detailed audit trail of

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<sup>30</sup> Consider the example of an unbundled loop. Investment associated with the loop is recorded in the accounts classified as Telecommunications Plant in Service (TPIS) -- Cable and wire facilities assets, and could include any of the following accounts: 2410 -- Cable and wire facilities; 2411 -- Poles; 2421 -- Aerial cable; 2422 -- Underground cable; 2423 -- Buried cable; 2424 -- Submarine cable; 2425 -- Deep Sea cable; 2426 -- Intrabuilding network cable; 2431 -- Aerial wire; and 2441 -- Conduit systems. The investment expenses associated with the electronics on the loop are recorded in Account 2232 -- Circuit equipment. The maintenance expenses associated with the loop are categorized as Plant specific operations expense and recorded in Accounts 6210 through 6441, which correspond to the TPIS investment accounts identified above, and Account 6232 -- Network administration expense, which pertains to the electronics on the loop. Depreciation expenses are recorded in Account 6561 and includes the depreciation expense of the capitalized costs included in the TPIS investment accounts identified above. In addition, certain costs associated with unbundled loop may be recorded in Accounts 6610 through 6623, as Customer operations expense, and Accounts 6710 through 6790, as Corporate operations expense.

<sup>31</sup> For example, if the appropriate cost study identified network support expense as 10% of the total cost of an unbundled loop, then an amount equal to 10% of the revenue attributable to unbundled loops would be recorded in subsidiary records in the network support expense accounts.



the assignments of costs to permit audits of the method of assignment and amounts assigned to the subsidiary records. We seek comment on this approach.

### C. Infrastructure Sharing

15. Section 259 of the Act generally requires ILECs to make available "public switched network infrastructure, technology, information, and telecommunications facilities and functions" to "qualifying carriers" that are eligible to receive federal universal service support but that lack economies of scale or scope.<sup>32</sup> Section 259(b)(6) limits the infrastructure sharing requirements of section 259 to those instances in which the qualifying carrier does not seek to use shared infrastructure to compete with the ILEC.<sup>33</sup> In the *Infrastructure Sharing Order*, the Commission adopted rules that rely in large part on negotiated agreements to satisfy the requirements of this section. In particular, the Commission concluded that ILECs may recover their costs associated with infrastructure sharing arrangements and that incentives exist that will encourage providing and qualifying carriers to reach negotiated agreements that ensure such recovery.<sup>34</sup>

16. In accordance with the minimal regulatory oversight contemplated by the *Infrastructure Sharing Order*, we tentatively conclude that the goals described in paragraph six, above, may not apply to infrastructure sharing. These facility arrangements between telephone companies have existed for many years and do not directly affect services provided to competitors. Therefore, we may not need to establish distinct Part 32 accounts or subsidiary recordkeeping categories to record the revenues, expenses and investment associated with these activities. We seek comment on this tentative conclusion. Commenters who recommend that new Part 32 accounts be established to record the amounts associated with infrastructure sharing are invited to propose specific accounts and account descriptions or recordkeeping requirements. We also ask that commenters generally describe the nature and terms of any infrastructure sharing agreements in which they participate so that we may provide guidance regarding into what existing Part 32 accounts the revenues, expenses, and investments related to infrastructure sharing should be booked.

### D. Other Matters

17. *Additional Accounts.* We seek comment on whether to create new accounts or subsidiary recordkeeping requirements for any other functions arising from implementation of the

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<sup>32</sup> 47 U.S.C. § 259; *see also* 47 U.S.C. § 214(e).

<sup>33</sup> 47 U.S.C. § 259(b)(6).

<sup>34</sup> *Infrastructure Sharing Order*, *supra* note 4 at para. 11.

1996 Act. Some possibilities include number portability,<sup>35</sup> dialing parity,<sup>36</sup> numbering administration,<sup>37</sup> collocation,<sup>38</sup> pole attachments,<sup>39</sup> and Telecommunications Relay Services.<sup>40</sup> We tentatively conclude that new accounts or subsidiary recordkeeping requirements are not necessary to record the revenues, investments, and expenses associated with these activities because the associated costs and revenues may readily be recorded in existing accounts. We seek comment on this tentative conclusion. Commenters are invited to propose accounts, account descriptions, or subsidiary recordkeeping requirements and to explain why additional accounting requirements are necessary.

18. *Classification of Companies.* Section 32.11 of our rules divides companies into two categories for purposes of accounting rules: Class A companies have "annual revenues from regulated telecommunications operations that are equal to or above the indexed revenue threshold;" and Class B companies have "annual revenues from regulated telecommunications companies that are less than the indexed revenue threshold."<sup>41</sup> These designations determine what accounts of the USOA the company must keep. The rules require more detailed accounts for Class A companies. The USOA enables the Commission to monitor earnings and forms the basis for our cost allocation, jurisdictional separations, and access charge rules. We have generally applied the requirements on ILECs and interexchange carriers subject to Title II regulation such as AT&T and Comsat. We seek comment on whether, given the purpose of Part 32 and the overall intent of the Act to remove legal and regulatory burdens to competition, section 32.11 should be amended so that its requirements explicitly pertain only to ILECs, as defined in section 251(h) of the Act, and any other companies that the Commission designates by order.

#### IV. PROCEDURAL MATTERS

##### A. Effective Date

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<sup>35</sup> See 47 U.S.C. § 251(b)(2).

<sup>36</sup> See *id.* § 251(b)(3).

<sup>37</sup> See *id.* § 251(e)(2) and 47 C.F.R. § 52.17.

<sup>38</sup> See 47 U.S.C. § 251(c)(6).

<sup>39</sup> See *id.* § 224; Amendment of Rules and Policies Governing Pole Attachments, *Notice of Proposed Rulemaking*, CS Docket No. 97-98, FCC No. 97-94 (rel. Mar. 14, 1997).

<sup>40</sup> See 47 U.S.C. § 225. Telecommunications Relay Services administration was established prior to the 1996 Act.

<sup>41</sup> 47 C.F.R. § 32.11.

19. Pursuant to section 220(g) of the Act, the accounting changes proposed herein shall be effective six months after a final decision in this proceeding is published in the Federal Register, as required by the Act.<sup>42</sup> We propose to permit carriers to implement these changes earlier.

**B. Ex Parte Presentation**

20. This is a permit-but-disclose proceeding. Ex parte presentations are permitted, except during the Sunshine Agenda period, provided that they are disclosed as provided in the Commission's rules.<sup>43</sup>

**C. Initial Regulatory Flexibility Act Analysis**

21. This NPRM proposes new revenue and expense accounts for ILECs to record the revenues they receive and the amounts they pay in the sale and purchase of interconnection, access to unbundled network elements, transport and termination of traffic, and resale of telecommunications services. Section 603 of the Regulatory Flexibility Act (RFA), as amended,<sup>44</sup> requires an initial Regulatory Flexibility Act Analysis in notice-and-comment rulemaking proceedings unless we certify that "the rule will not, if promulgated, have a significant economic impact on a significant number of small entities."<sup>45</sup>

22. The RFA defines the term "small entity" as having the same meaning as "small business concern" under the Small Business Act (SBA),<sup>46</sup> which defines "small business concern" as "one which is independently owned and operated and which is not dominant in its field of operation."<sup>47</sup> Section 121.201 of the SBA regulations defines small telecommunications entities in SIC Code 4813 (Telephone Communications, Except Radiotelephone) as any entity with fewer than 1,500 employees at the holding company level.<sup>48</sup> Some entities employing fewer than 1500 employees at the holding company level may be affected by the proposals made in this NPRM.

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<sup>42</sup> 47 U.S.C. § 220(g).

<sup>43</sup> See 47 U.S.C. §§ 1.102, 1.203 and 1.206.

<sup>44</sup> 5 U.S.C. § 603.

<sup>45</sup> *Id.* § 605(b).

<sup>46</sup> *Id.* § 601(6) adopting 15 U.S.C. § 632(a)(1).

<sup>47</sup> 15 U.S.C. § 632(a)(1).

<sup>48</sup> 13 C.F.R. § 121.201.

However, we do not consider such entities to be "small entities" under the RFA because they are either affiliates of large corporations or dominant in their field of operations. Therefore, we do not believe that the proposed rules will affect a substantial number of small entities.

23. Even if the small ILECs were "small entities" under the SBA, we would still certify that no regulatory flexibility analysis is necessary here because none of the proposals in this NPRM, if adopted, would have a significant economic impact on the carriers which must comply with our accounting rules. Pursuant to long-standing rules, ILECs must record the revenues and expenses associated with their operations. This NPRM merely proposes that new revenue and expense accounts be established so that the amounts pertaining to interconnection and infrastructure sharing will be uniformly reported. This procedure will be easy for ILECs to implement and will not require costly or burdensome analysis.

24. We therefore certify, pursuant to section 605(b) of the RFA that the rules proposed in this NPRM will not have a significant economic impact on a substantial number of small entities. The Commission will publish this certification in the Federal Register and will provide a copy of the certification to the Chief Counsel for Advocacy of the SBA. The Commission will also include this certification in the report to Congress pursuant to the Small Business Regulatory Enforcement Fairness Act.<sup>49</sup>

#### **D. Comment Filing Procedures**

25. Pursuant to applicable procedures set forth in sections 1.415 and 1.419 of the Commission's rules,<sup>50</sup> interested parties may file comments with the Secretary, Federal Communications Commission, Washington D.C. 20554 on or before December 10, 1997. Interested parties may file reply comments on or before January 26, 1998. To file formally in this proceeding, participants must file an original and six copies of all comments, reply comments and supporting comments. If participants want each Commissioner to receive a personal copy of their comments, an original plus eleven copies must be filed. In addition, parties should file one copy of any such pleading with Matthew Vitale, Accounting and Audits Division, Common Carrier Bureau, 2000 L Street N.W. Room 200F, Washington, D.C. 20554. Parties should also file one copy of any documents filed in this proceeding with the Commission's copy contractor, International Transcription Services, Inc., 1231 20th Street N.W., Washington, D.C. 20036. All comments will be available for public inspection during regular business hours in the FCC Reference Center, 1919 M Street N.W., Room 239, Washington, D.C. 20554.

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<sup>49</sup> 5 U.S.C. § 801(a)(1)(A).

<sup>50</sup> 47 U.S.C. §§ 1.415 and 1.419.

26. Along with their formal filings, parties are requested to submit informal comments either on 3.5 inch diskettes or electronically via email to <acctchgs@fcc.gov>. Documents submitted on diskette should be saved in WordPerfect 5.1 for Windows format. Diskettes should be formatted for a DOS PC, submitted in "read only" mode, and clearly labelled with the party's name, proceeding, type of pleading (comment or reply comment), docket number, and date of submission. Electronic submissions should include the docket number of the proceeding in the subject line and should state whether the electronic submission is an exact copy of formal comments. Parties submitting comments electronically must also include their full names and mailing address in the submission.

#### **E. Paperwork Reduction Act**

27. This NPRM contains either a proposed or modified information collection. As part of our continuing efforts to reduce paperwork burden as required by the Paperwork Reduction Act of 1995,<sup>51</sup> we invite the general public and the Office of Management and Budget (OMB) to take this opportunity to comment on the information collections contained in this NPRM. Comments should address: (a) whether the proposed collection of information is necessary for the proper performance of the functions of the Commission, including whether the information shall have practical utility; (b) the accuracy of the Commission's burden estimates; (c) ways to enhance the quality, utility and clarity of the information collected; and (d) ways to minimize the burden of the collection of information on the respondents, including the use of automated collection techniques or other forms of information technology.

28. Public and agency comments on the paperwork burden are due at the same time as other comments on this register; OMB comments are due 60 days from the date of publication of this NPRM in the Federal Register. In addition to filing comments with the Office of the Secretary, Federal Communications Commission, 1919 M Street N.W., Room 222, Washington, D.C. 20554, a copy of any comments on the information collections contained herein should be submitted to Judy Boley, Federal Communications Commission, 1919 M Street N.W., Room 234, Washington, D.C. 20554 or via the Internet to jboley@fcc.gov and to Timothy Fain, OMB Desk Officer, 10236 NEOB, 725 17th Street N.W., Washington, D.C. 20503 or via the internet to fain\_t@al.eop.gov.

#### **F. Additional Information**

29. For further information concerning this proceeding, contact Matthew Vitale, Accounting and Audits Division of the Common Carrier Bureau, at (202) 418-0866.

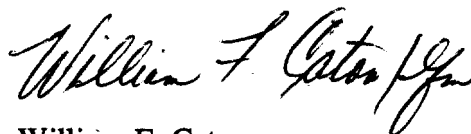
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<sup>51</sup> Paperwork Reduction Act of 1995, Pub. L. No 104-13, 109 Stat. 163 (1995).

**V. ORDERING CLAUSE**

30. IT IS ORDERED that, pursuant to sections 1, 4, 201-205, 218, 220, 251, 252, 254(k) and 259 of the Communications Act of 1934, as amended by the Telecommunications Act of 1996, 47 U.S.C. § 151, 154, 201-205, 218, 220, 251, 252, 254(k), and 259, a NOTICE OF PROPOSED RULEMAKING is hereby ADOPTED.

FEDERAL COMMUNICATIONS COMMISSION

A handwritten signature in cursive script, reading "William F. Caton".

William F. Caton  
Acting Secretary

**APPENDIX A -- PROPOSED RULES**

Part 32 of Title 47 of the C.F.R. is amended as follows:

**PART 32 - UNIFORM SYSTEM OF ACCOUNTS FOR TELECOMMUNICATIONS COMPANIES**

1. The authority citation for Part 32 continues to read as follows:

Authority: Secs. 4(i), 4(j) and 220 as amended; 47 U.S.C. 154(i), 154(j) and 220 unless otherwise noted.

2. Paragraph 32.4999(g)(4) is revised to read as follows:

**§32.4999 General**

\* \* \* \* \*

(4) Accounts shall be maintained as prescribed in this Section subject to the conditions described in section 32.13 of Subpart B. In addition to the subsidiary record categories required by Commission order in specific accounts, subsidiary record categories shall be maintained in order that the company may separately report the amounts contained in each account that resulted from wholesale of telecommunications service pursuant to section 251(c)(4) of the Act.

\* \* \* \* \*

3. Paragraph 32.5000 is revised to read as follows:

**§32.5000 Basic local service revenue**

This account number shall be used by Class A telephone companies to summarize for reporting purposes the contents of Accounts 5001 through 5004. Class B telephone companies shall use this account for revenues of the type and character required of Class A companies in Accounts 5001 through 5072.

4. Paragraph 32.5071 is added to read as follows:

**§32.5071 Interconnection and access to unbundled network element revenue**

(a) This account shall include revenues derived from the provision of: interconnection to other carriers for origination or termination of non-toll traffic pursuant to section 251(c)(2) and access to unbundled network elements pursuant to section 251(c)(3) of the Act.

(b) Subsidiary record categories shall be maintained in order that the company may separately report the amounts contained herein derived from the provision of interconnection, network interface devices, local loops, local and tandem switches, interoffice transmission facilities, signalling and call-related database facilities, operations support systems, and information and operator and directory assistance facilities. Such subsidiary record categories shall be reported as required by Part 43 of this Commission's Rules and Regulations.

5. Paragraph 32.5072 is added to read as follows:

**§32.5072 Transport and termination revenue**

(a) This account shall include all revenues received for transmitting terminating traffic, that is subject to section 251(b)(5), from the interconnection point between two carriers to the terminating carrier's end office switch that directly serves the called party and switching of traffic that is subject to section 251(b)(5) at the terminating carrier's end-office switch and delivery of that traffic from that switch to the called party's premises.

(b) Subsidiary record categories shall be maintained in order that the company may separately report the amounts contained herein that related to transport and termination, respectively.

6. Paragraph 32.6551 is added to read as follows:

**§32.6551 Interconnection and access to unbundled network element expense**

(a) This account shall include: all amounts paid by a carrier to interconnect with another carrier for origination or termination of non-toll traffic pursuant to section 251(c)(2) of the Act; and all amounts paid by a carrier for access to the unbundled network elements of another carrier pursuant to section 251(c)(3) of the Act.

(b) Subsidiary record categories shall be maintained in order that the company may separately report the amounts contained spent for interconnection, network interface devices, local loops, local and tandem switches, interoffice transmission facilities, signalling and call-related database facilities, operations support systems, and information and operator and directory assistance facilities. Such subsidiary record categories shall be reported as required by Part 43 of this Commission's Rules and Regulations.

7. Paragraph 32.6552 is added to read as follows:



**§32.6552 Transport and termination expense**

(a) This account shall include all amounts paid by carriers for transport and termination of local traffic by another carrier pursuant to section 251(b)(5) of the Act.

(b) Subsidiary record categories shall be maintained in order that the company may separately report the amounts contained herein that related to transport and termination.

8. Paragraph 32.6553 is added to read as follows:

**§32.6553 Purchased telecommunications service expense**

This account shall include all amounts paid by carriers to purchase telecommunications service for resale pursuant to section 251(c)(4) of the Act.